HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY

FINANCIAL STATEMENTS for the years ended December 31, 2005 and 2004

Michigan Department of Treasury 496 (02/06) Auditing Procedures Report

_					nd P.A. 71 of 191	9, as amende	d.			
Local Unit of Government Type						Local Unit Name			County	
_	Cou		City	□Twp	□Village		Harbor Sprin	ngs Area Sewage D	isposal Auth	Emmet
1	iscal Ye 12/31		d		Opinion Date			Date Audit Report Subm	itted to State	
L					May 12, 2	2006		June 12, 2006		
	e affiri									
W	e are	certifi	ed public ac	countants	licensed to p	oractice in f	Michigan.			
W M	e furth anage	er af ment	firm the follo Letter (repo	wing mate rt of comr	erial, "no" res _i ments and red	ponses hav commendat	/e been disclose tions).	d in the financial state	ements, includ	ing the notes, or in the
	YES	9	Check ea	ch applic	able box bel	ow. (See ir	nstructions for fu	rther detail.)		
1	. 🗶		All require reporting e	d componentity note	ent units/fund s to the finan	ds/agencie: cial statem	s of the local uni ents as necessa	t are included in the fi	nancial staten	nents and/or disclosed in the
2	×		There are	no accum	ulated deficit	s in one or	more of this uni	t's unreserved fund ba dget for expenditures.	alances/unrest	ricted net assets
3	×							ounts issued by the D		Troopuny
4	×						equired funds.	and recase by the b	oparanent of	rreasury.
5	×						ccordance with	State statute		
6	×		The local u	ınit has no	ot violated the	Municipal		order issued under th	ne Emergency	Municipal Loan Act, or
7	×							enues that were collec	ted for anothe	r taving unit
8	X							ith statutory requirem		a taxing unit.
9.	X		The local u	ınit has no	illegal or una	authorized	expenditures tha	at came to our attention (see Appendix H of B	n as defined i	n the <i>Bulletin for</i>
10). 🗷		There are r that have n	no indicati iot been p	ons of defalc	ation, fraud nmunicated	l or embezzleme I to the Local Au	ent which came to our	r attention dur	ing the course of our audit there is such activity that has
11		X	The local u	nit is free	of repeated o	comments f	rom previous ye	ars.		
12	. X		The audit o	pinion is l	UNQUALIFIE	D.				
13	. X		The local unaccepted a	nit has co ccounting	mplied with G principles (G	SASB 34 or SAAP).	GASB 34 as m	odified by MCGAA Sta	atement #7 an	d other generally
14	. 🔀		The board	or council	approves all	invoices pr	ior to payment a	s required by charter	or statute.	
15	. 🗶							ere performed timely.		
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May 12, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have audited the financial statements of the Harbor Springs Area Sewage Disposal Authority as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Sewage Disposal Authority as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees May 12, 2006

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Smolinski & Christman, P.C.



This section of the Harbor Springs Area Sewage Disposal Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ended December 31, 2005 and 2004. It should be read in conjunction with the Authority's financial statements which immediately follow.

FACILITY AND OPERATIONS

The Harbor Springs Area Sewage Disposal Authority serves the southern Emmet County area in a variety of formats. The Authority is made up of four municipalities, those being the City of Harbor Springs, Little Traverse Township, Littlefield Township and the Village of Alanson. The Authority is an incorporated intramunicipality founded in 1969 under the provisions of Act 233, Michigan Public Acts of 1955, as amended. Control of the various operations of the Authority is vested in the Board of Trustees. The board consists of seven members, three from the City of Harbor Springs, two from Little Traverse Township, and one each from Littlefield Township and the Village of Alanson.

The Authority operates and maintains seventy-eight separate wastewater pumping stations, approximately sixty-five miles of gravity sewers and approximately thirty-five miles of force mains in the seven regional and local collection systems which it owns. It also operates a municipal wastewater treatment system which serves all four of the above-mentioned municipalities. The Authority also operates and maintains its water distribution system as required by the State of Michigan.

In addition, the Authority is under contract with the Springvale-Bear Creek Sewer Authority and West Traverse Township to operate and maintain their respective municipal wastewater collection systems. The Authority is also under contract with Little Traverse Township to operate and maintain the township's municipal water distribution system.

In total, the Harbor Springs Area Sewage Disposal Authority operates and maintains twelve separate systems with rate structures to provide funds for those separate systems.

MISSION STATEMENT AND SOURCES OF REVENUE

The Harbor Springs Area Sewage Disposal Authority was incorporated to comply with the Clean Water Act of 1968 and to help improve the water quality of the local lakes, rivers and streams.

In order to comply, the authority charges fixed and flow-related rates to the various municipalities to provide funds to adequately fund the different operations. These funds provide for operations, repair and replacement of pumps, motor, vehicles, etc. as described in the board-approved repair and replacements fund lists.

FINANCIAL STATEMENT OVERVIEW

The Authority's annual report includes three financial statements that provide both long-term and short-term information about the Authority's financial status. These statements are presented using the accrual basis of accounting.



FINANCIAL STATEMENT OVERVIEW (Continued)

The Statements of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Authority's capital structure and assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses, and Changes in Net Assets includes all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final financial statement is the Statements of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED FINANCIAL INFORMATION

The following table represents condensed information regarding the Authority's financial position at December 31, 2005 and 2004:

	2005	2004
Current assets Restricted and designated assets Capital assets Other assets	\$ 247,511 6,501,120 8,444,142 23,796	\$ 263,141 6,751,701 8,729,920 36,399
Total assets	<u>\$15,216,569</u>	<u>\$15,781,161</u>
Current liabilities Current liabilities payable from	\$ 30,734	\$ 71,648
restricted assets Long-term liability Long-term liability payable	426,551 38,878	329,496 50,937
from restricted assets	5,464,770	5,849,770
Total liabilities	<u>\$ 5,960,933</u>	<u>\$ 6,301,851</u>
Investment in capital assets Reserved for debt retirement Unreserved	\$ 8,444,142 2,165 809,329	\$ 8,729,920 2,137 <u>747,253</u>
Total net assets	<u>\$ 9,255,636</u>	\$ 9,479,310

The following table indicates that operating revenue exceeded operating expenses, excluding depreciation for the year. A portion of depreciation expense is funded annually by separate repair and replacement billings. However, it is anticipated that the Authority will continue to show losses in future years because a majority of the depreciation expense relates to the sewer plant facility. The

CONDENSED FINANCIAL INFORMATION (Continued)

following information does indicate that the rates charged for operations were sufficient to cover expenses. Fine tuning of the twelve separate systems and the different rates is an annual requirement and is necessary to mandate that each municipality is paying its fair share.

	2005	2004
Operating revenues	\$ 746,546	\$ 728,686
Operating expenses: Pumping Treatment Collection and transmission Administration and general	281,618 72,359 40,150 <u>326,161</u>	255,946 108,650 26,784
Total operating expenses	<u>720,288</u>	675,113
Operating income before depreciation	26,258	53,573
Depreciation expense	413,283	407,357
Operating loss	(387,025)	(353,784)
Non-operating revenues and expenses (net)	<u> 163,351</u>	<u>175,383</u>
Net loss before capital contributions	(223,674)	(178,401)
Capital contributions		124,911
Net loss	<u>\$ (223,674</u>)	<u>\$ (53,490</u>)

Operating revenues for the year increased \$17,860 over the prior year as a result of increases in rates and user consumption. Operating expenses increased \$45,175 over the prior year. Employee wages, benefits and related payroll taxes increased \$63,909 due to an increase in insurance premiums and the addition of one more operator. Maintenance, supplies and electric utilities decreased during the year by \$16,092. These two fluctuations make up the majority of the increase in operating expenses. In the prior year there were capital contributions of \$124,911 that helped reduce the net loss for the year. These contributions were loan proceeds to pay for the construction of the plant and proceeds from the refunding of two revenue bond projects. There were no capital contributions in the current year.

CAPITAL IMPROVEMENTS AND FUNDING REQUIREMENTS

The Authority began setting aside funds for repair and replacement purposes approximately ten years ago based on a study of future replacement needs for transportation equipment and operating equipment and parts, including pumps, meters and control panels. Revenues for this purpose are billed annually and totaled \$208,699 in 2005 and \$208,378 in 2004. The total amount available for repair and replacement at December 31, 2005 and 2004 was \$557,685 and \$521,183, respectively. Detailed information about the Authority's capital assets is presented in Note F to the financial statements.



DEBT STRUCTURE

The Authority had three outstanding bond issues at December 31, 2005 and 2004. In 2002, a new wastewater treatment facility was financed with a bond issue totaling approximately \$5,400,000. Also, the Authority issued bonds in 2004 totaling \$710,000, the proceeds of which were used to retire existing bonds. The bond refunding was due to take advantage of lower interest rates for the remainder of the bond repayment term through 2009.

The Authority's contractual agreements with its users require them to reimburse the Authority for all principal and interest costs associated with the bond issues.

CONTACTING THE AUTHORITY'S MANAGEMENT

The purpose of this management discussion is to provide an overview of the current and prospective financial condition of the Authority's operations and physical assets. Questions concerning this report may be directed to the Authority's Manager, Robert Morris.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENTS OF NET ASSETS December 31, 2005 and 2004

				2005		2004
Cash and cosh equivalents \$ 39,073 \$ 1,468 Certificates of deposit 36,000 11,669 Due from Springvale-Bear Creek Sewage Disposal Authority 108,468 116,691 Total current assets 247,511 263,141 RESTRICTED AND DESIGNATED ASSETS: Restricted assets, debt retirement 5,893,502 6,191,665 Designated assets 607,618 570,036 Total restricted and designated assets 6,501,120 6,751,701 CAPITAL ASSETS, net of accumulated depreciation 8,444,142 8,729,920 OTHER ASSETS, bond expenses net of accumulated amortization 23,796 36,399 Total assets LIABILITIES AND NET ASSETS \$15,216,569 \$15,781,161 CURRENT LIABILITIES LIABILITIES AND NET ASSETS \$17,125 \$2,7161 Accounts payable \$17,125 \$2,7161 30,194 Current portion of advances \$1,2059 11,890 Due to Springvale-Bear Creek Sewage Disposal Authority 30,734 71,648 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: 41,551 34,496 Accrued and withheld payroll taxes	CUIDDENII A CODING	ASSETS				
Total current assets 247,511 263,141 RESTRICTED AND DESIGNATED ASSETS: Restricted assets, debt retirement 5,893,502 6,181,665 570,036 700 700 700,036 700,036 700,036 700,036 700,036 700,036 700,036 700,036 700,036 700 700,036 700,03	Cash and cash equivalents Certificates of deposit Due from Springvale-Bear Creek Sewage Disposal Au	thority	\$	63,970 36,000	·	94,982 51,468 - 116,691
RESTRICTED AND DESIGNATED ASSETS: 5,893,502 6,181,665 Restricted assets, debt retirement Designated assets 6,07,618 570,036 Total restricted and designated assets 6,501,120 6,751,701 CAPITAL ASSETS, net of accumulated depreciation 8,444,142 8,729,920 OTHER ASSETS, bond expenses net of accumulated amortization 23,796 36,399 LIABILITIES AND NET ASSETS CURRENT LIABILITIES: Accrued and withheld payroll taxes 1,550 2,403 Due to Springvale-Bear Creek Sewage Disposal Authority 1,550 30,194 Current portion of advances 12,059 11,890 Total current liabilities 30,734 71,648 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: Accrued interest payable 41,551 34,496 Current portion of long-term debt 38,000 295,000 Total current liabilities payable from restricted assets 426,551 329,496 LONG-TERM LIABILITY Advances, less current portion 38,878 50,018,51 LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, 5,960,933 6,301,851 <td>Total current assets</td> <td></td> <td></td> <td></td> <td>- —</td> <td></td>	Total current assets				- —	
CAPITAL ASSETS, net of accumulated depreciation 8,444,142 8,729,920 OTHER ASSETS, bond expenses net of accumulated amortization 23,796 36,399 Total assets \$15,216,569 \$15,781,161 LIABILITIES AND NET ASSETS CURRENT LIABILITIES: Accounts payable \$17,125 \$27,161 Accrued and withheld payroll taxes 1,550 2,403 Due to Springvale-Bear Creek Sewage Disposal Authority 1,550 2,403 Current portion of advances 12,059 11,890 Total current liabilities 30,734 71,648 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: Accrued interest payable 41,551 34,496 Current portion of long-term debt 385,000 295,000 Total current liabilities payable from restricted assets 426,551 329,496 LONG-TERM LIABILITY. Advances, less current portion 38,878 50,937 LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, 5,664,770 5,849,770 Total liabilities 5,960,933 6,301,851 NET ASSETS:	Restricted assets, debt retirement				(6,181,665
OTHER ASSETS, bond expenses net of accumulated amortization 23,796 36,399 Total assets \$15,216,569 \$15,781,161 LIABILITIES AND NET ASSETS CURRENT LIABILITIES: Accounts payable \$17,125 \$27,161 Accounts payable \$1,550 2,403 Accrued and withheld payroll taxes 1,550 2,403 Due to Springvale-Bear Creek Sewage Disposal Authority 12,059 11,890 Current portion of advances 12,059 11,890 Total current liabilities 30,734 71,648 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: Accrued interest payable 41,551 34,496 Current portion of long-term debt 385,000 295,000 Total current liabilities payable from restricted assets 426,551 329,496 LONG-TERM LIABILITY Advances, less current portion 38,878 50,937 Long-term debt, less current portion 5,464,770 5,849,770 Total liabilities 5,960,933 6,301,851 NET ASSETS: 8,444,142 8,729,920	Total restricted and designated assets			6,501,120	- (6,751,701
Total assets \$15,216,569 \$15,781,161	CAPITAL ASSETS, net of accumulated depreciation		8	3,444,142	8	3,729,920
LIABILITIES AND NET ASSETS	OTHER ASSETS, bond expenses net of accumulated am	ortization		23,796		36,399
CURRENT LIABILITIES: \$ 17,125 \$ 27,161 Accounts payable \$ 17,125 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405	Total assets		\$ 15	5,216,569	\$ 15	5,781,161
CURRENT LIABILITIES: \$ 17,125 \$ 27,161 Accounts payable \$ 17,125 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405 \$ 2,403 \$ 2,405	LIABILITIES	AND NET ASSETS				
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: 41,551 34,496 Accrued interest payable 41,551 34,496 Current portion of long-term debt 385,000 295,000 Total current liabilities payable from restricted assets 426,551 329,496 LONG-TERM LIABILITY. Advances, less current portion 38,878 50,937 LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, 5,464,770 5,849,770 Long-term debt, less current portion 5,960,933 6,301,851 NET ASSETS: Investment in capital assets 8,444,142 8,729,920 Reserved for debt retirement 2,165 2,137 Unreserved 809,329 747,253 Total inet assets 9,255,636 9,479,310	CURRENT LIABILITIES: Accounts payable Accrued and withheld payroll taxes Due to Springvale-Bear Creek Sewage Disposal Author		\$	1,550 -	\$	2,403 30,194
Accrued interest payable Current portion of long-term debt 41,551 385,000 34,496 295,000 Total current liabilities payable from restricted assets 426,551 329,496 LONG-TERM LIABILITY. Advances, less current portion 38,878 50,937 LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, Long-term debt, less current portion 5,464,770 5,849,770 Total liabilities 5,960,933 6,301,851 NET ASSETS: Investment in capital assets Reserved for debt retirement Unreserved 8,444,142 8,729,920 Total net assets 9,255,636 9,479,310	Total current liabilities			30,734		71,648
LONG-TERM LIABILITY. Advances, less current portion 38,878 50,937 LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, Long-term debt, less current portion 5,464,770 5,849,770 Total liabilities 5,960,933 6,301,851 NET ASSETS: Investment in capital assets Reserved for debt retirement Unreserved 8,444,142 8,729,920 Reserved for debt retirement Unreserved 2,165 2,137 Total net assets 9,255,636 9,479,310	Accrued interest payable	SETS:				
LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, Long-term debt, less current portion 5,464,770 5,849,770 Total liabilities 5,960,933 6,301,851 NET ASSETS: Investment in capital assets 8,444,142 8,729,920 Reserved for debt retirement 2,165 2,137 Unreserved 809,329 747,253 Total net assets 9,255,636 9,479,310	Total current liabilities payable from restri	cted assets		426,551		329,496
Total liabilities	LONG-TERM LIABILITY. Advances, less current portion			38,878		50,937
NET ASSETS: Investment in capital assets Reserved for debt retirement Unreserved Total net assets Total ligibilities and not geneta	LONG-TERM LIABILITY PAYABLE FROM RESTRICTED AS Long-term debt, less current portion	SETS,	5,	464,770	5,	849,770
Investment in capital assets 8,444,142 8,729,920	Total liabilities		5,	960,933	6,	301,851
Total lightities and not gasets	Investment in capital assets Reserved for debt retirement Unreserved			2,165		2,137
Total liabilities and net assets \$15,216,569 \$15,781,161			9,:	255,636	9,4	479,310
	Total liabilities and net assets		\$ 15,2	216,569	\$ 15,7	781,161

The accompanying notes are a part of the financial statements.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS for the years ended December 31, 2005 and 2004

	2005			2004	
OPERATING REVENUES	\$	746,546	\$	728,686	
OPERATING EXPENSES:					
Pumping		281,618		255,946	
Treatment		72,359		108,650	
Collection and transmission		40,150		26,784	
Administrative and general		326,161		283,733	
Total operating expenses		720,288		675,113	
Operating income before depreciation		26,258		53,573	
Depreciation expense		413,283		407,357	
Operating loss	***************************************	(387,025)		(353,784)	
NON-OPERATING REVENUES (EXPENSES):					
Contribution by local governmental units to					
defray interest expense on long-term debt		156,071		185,375	
Repair and replacement income		208,700		208,378	
Interest income		16,407		6,466	
Miscellaneous income		3,365		13,000	
Interest expense		(163,958)		(189,169)	
Repair and replacement expenses		(51,211)		(44,862)	
Amortization of bond expenses		(8,379)		(1,573)	
Gain (loss) on sale and disposal of equipment		2,356		(2,232)	
Total non-operating revenues (expenses)		163,351		175,383	
Net loss before capital contributions	((223,674)		(178,401)	
CAPITAL CONTRIBUTIONS		-		124,911	
Net loss	(223,674)		(53,490)	
NET ASSETS, BEGINNING OF YEAR	9,	479,310	S	9,532,800	
NET ASSETS, END OF YEAR	\$ 9,	255,636	\$ 9	,479,310	



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENTS OF CASH FLOWS

for the years ended December 31, 2005 and 2004

		2005		2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Fees and services	\$	744,172	\$	721,699
Payments for goods and services		(444,761)		(434,765)
Payments to employees		(286,416)		(250,920)
Net cash provided by operating activities		12,995		36,014
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Additions to repair and replacement reserve		209,850		198,931
Repair and replacement expenses		(51,211)		(38,862)
Repair and replacement expenses to be reimbursed by Springvale				
Bear-Creek Sewage Disposal Authority		(56,747)		10.000
Other income		3,365		13,000
Net cash provided by noncapital financing activities		105,257		173,069
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Collections from local governments for bond retirement		357,398		355,000
Contribution by local governments to defray				
interest and bond fee expense		153,856		194,140
Purchase of capital assets		(129,349)		(247,173)
Retirement of advances		(11,890)		(11,252)
Proceeds from sale of capital assets Proceeds from long-term debt		4,200		804,911
Retirement of long-term debt		(295,000)		(1,100,000)
Interest and bond fee expense		(152,679)		(215,923)
Bond refunding costs		-		(30,000)
Net cash used in capital and related financing activities		(73,464)		(250,297)
CASH FLOWS FROM INVESTING ACTIVITIES,				
Interest earned		16,407		6,466
Proceeds from maturities of certificates of deposit		700,963		604,912
Purchase of certificates of deposit		(751,047)		(1,226,416)
Net cash used in investing activities		(33,677)		(615,038)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		11,111		(656,252)
CASH AND CASH EQUIVALENTS, Beginning of year		97,119		753,371
CASH AND CASH EQUIVALENTS, End of year	\$	108,230	\$	97,119
COMPONENTS OF CASH AND CASH EQUIVALENTS:				
Unrestricted and undesignated	\$	39,073	\$	94,982
Restricted for debt retirement		69,157		2,137
Total cash and cash equivalents	\$	108,230	\$	97,119
RECONCILIATION OF NET OPERATING EXPENSES TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating loss	\$	(387,025)	\$	(359,784)
Adjustments to reconcile operating loss to net cash	~	(007,020)	•	(000,701)
provided by operating activities:				
Depreciation		413,283		407,357
Increase in accounts recievable		7,073		(17,876)
Decrease in accounts payable		(10,036)		(6,975)
Increase in accrued and withheld payroll taxes Increase in due to Springvale-Bear Creek Sewage Disposal Authority		(853)		2,403
moreuse in due to springvale-bear Oreek sewage Disposal Authority	-	(9,447)		10,889
Net cash provided by operating activities	\$	12,995	\$	36,014
NON CASH CAPITAL AND FINANCING ACTIVITIES:				
Gain (loss) on capital asset sales and disposals	\$	2,356	\$	(2,232)
			-	

The accompanying notes are a part of the financial statements.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE A - NATURE OF ENTITY:

The Harbor Springs Area Sewage Disposal Authority (the "Authority") was created as a corporate instrumentality in 1969 under provisions of Act 233, Michigan Public Acts of 1955, as amended. The local governmental units comprising the Authority include the City of Harbor Springs, the Village of Alanson, and Little Traverse and Littlefield Townships. The Authority owns and operates a sewage disposal utility system consisting of a site, a treatment plant, a collection system and a related water system. In addition, the Authority operates sewage disposal utility systems belonging to Springvale-Bear Creek Sewage Disposal Authority and West Traverse Township and a water system belonging to Little Traverse Township under terms of operating contracts.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Authority conform to accounting principles generally accepted in the United State of America as applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. Specific accounting policies are described in the following paragraphs.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these quidelines, there are no component units to be included in the financial statements.

Basis of Accounting

The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Operating Revenue

The Authority derives its revenues from charges to local units for sewage and water services. Rates are set at a level to provide for all operating costs, and to provide for an accumulation of funds for repair and replacement of plant and equipment as explained in Note E. Each member entity and contracting entity is charged based on the costs of services utilized, as some entities do not use the full range of services offered.

Capital Assets

Property and equipment are recorded at cost. The plant and systems are being depreciated under the straight-line method over their estimated useful lives of 40 years; the other fixed assets are being depreciated over their shorter estimated useful lives using the straight-line method.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents

The Authority considered its deposits and restated deposits paid investments held with maturities of three months or less to be cash equivalents.

Restricted and Designated Assets

Assets restricted by provisions of bond resolutions for the payment of bond interest are recorded as restricted assets while those designated by the Authority's Board of Trustees for repair and replacement are recorded as designated assets. Any investment earnings of the restricted or designated funds are recorded as income and added to the fund. Disbursements are made only for the restricted or designated purposes.

Contributions for Bond Costs

Amounts receivable from participating local governmental units to pay the outstanding bond principal are recorded as contracts receivable and capital contributions. Payments are due at designated dates and amounts over the lives of the bonds and are to be applied against the receivable when received.

In addition to the principal payments, governmental units are to provide for the interest expense and bond costs incurred on long-term debt. Amounts to defray such costs are recorded as other income. Any accrued interest payable on bonds is also recorded as an asset due from the governmental units.

Other Assets

Deferred bond expense is being amortized over the term of the bonds. The statements of revenues, expenses and changes in net assets reflects \$8,379 and \$1,573 for amortization of bond expenses in 2005 and 2004, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Financial Statement Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 financial statement presentation. Such reclassifications had no effect on net loss as previously reported.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE C - CREDIT RISK:

The following is a summary of the Authority's deposits (including cash, cash equivalents and certificates of deposit) at December 31, 2005 and 2004:

- · · · · · · · · · · · · · · · · · · ·	2005	2004
Carrying amount on financial statement	<u>\$779,818</u>	<u>\$718,623</u>
Bank balance	\$808,148	\$760,241
Insured by Federal Deposit Insurance Corporation	100,000	100,000
Uninsured and uncollateralized balance	<u>\$708,148</u>	<u>\$660,241</u>

Michigan law authorizes the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit and savings accounts which are insured with the applicable federal agency, commercial paper within the three highest rate classifications by at least two rating services, U.S. or agency repurchase agreements, bankers acceptance of U.S. banks and mutual funds. The Authority's investments during 2005 and 2004 were in accordance with these requirements.

NOTE D - RESTRICTED ASSETS:

Under terms of contractual agreements between the Authority, the City of Harbor Springs, Village of Alanson, and Littlefield and Little Traverse Townships executed in conjunction with the sale of various bonds, the participating governmental units have agreed to pay the Authority all debt service costs associated with the bond issues and the bonds are payable solely from such payments. These payments are required annually at amounts equal to the bond interest, principal and service charges payable within the ensuing year. The following is a summary of percentages due from each governmental unit for the bond issues outstanding at December 31, 2005 and 2004:

	Series 2004, Project No. 1 <u>Refunding</u>	Series 2004, Project No. 2 <u>Refunding</u>	Series 2002
Littlefield Township Little Traverse Township Village of Alanson City of Harbor Springs	36.16 - 63.84	53.17 20.24 26.59	23.29 27.06 10.37 _39.28
Total	100.00	<u>100.00</u>	<u>100.00</u>



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE D - RESTRICTED ASSETS (Continued):

Under the terms of the agreements, the City, Village and Townships have pledged their full faith and credit for payment of their respective share of debt service costs. In addition, each governmental unit has agreed to include a sufficient amount in its annual property tax levy to make the required payments.

The following is a summary of assets that are restricted for debt retirement at December 31, 2005 and 2004:

	2005	2004		
Cash	\$ 69,157	\$ 2,137		
Accrued interest receivable Due from local governmental	36,973	34,758		
units for bond retirement	<u>5,787,372</u>	6,144,770		
Total	<u>\$5,893,502</u>	<u>\$6,181,665</u>		

NOTE E - DESIGNATED ASSETS:

The Authority's repair and replacement reserve was established to accumulate funds for replacement of plant and equipment. The fund is to be used for plant repair or replacements costing more than an amount established by formula, approximately \$78,000 at December 31, 2005, and equipment repair or replacements costing more than \$10,000 or for specific expenses as designated by the Board of Trustees.

Annual operating revenues specified for repair and replacement and earnings from reserve investments are to be added to the reserve until it accumulates to five percent of plant cost, exclusive of land cost. After that only earnings from reserve investments are to be added to the reserve.

The Authority has also designated a cash account, which consists of proceeds from timber sales and other miscellaneous proceeds, for specific capital items and expenses as determined by the Board of Trustees.

The Authority's cash and certificates of deposit balances are designated as follows as of December 31, 2005 and 2004:

	2005	2004
Repair and replacement Designated timber funds	\$557,685 <u>49,933</u>	\$521,183 <u>48,853</u>
Total	<u>\$607,618</u>	<u>\$570,036</u>



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE F - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2005, is as follows:

	Balance <u>January 1, 2005</u> <u>Additions</u>			<u>De</u> l	etions	Balance December 31, 2005				
Land	\$	356,372	\$	-	\$	-	\$	5	356,372	
Sewage utility plant and	1.	007 002		10,581		2.913		14	nns 401	
collection system Waterwell and distribution system	1.	3,997,823 195,666		-		2,913 -	14,005,491 195,666			
Garage and other buildings		97,870	-		-		97,870			
Transportation, shop and										
office equipment		335,977		60,511		16,929			379,559	
Construction in progress			_	58,257	_		-		58,257	
Total	14	1,983,708	l	29,349		19,842		15,	093,215	
Accumulated depreciation		5,253,788	_4	13,283		<u>17,998</u>		6,	<u>649,073</u>	
Capital assets, net	\$ 8	3,729,920	\$(2	83,934)	\$	1,844	\$	8,	444,142	

 $Total \, depreciation \, expense \, for \, the \, years \, ended \, December \, 31, 2005 \, and \, 2004 \, was \, \$413, 283 \, and \, \$407, 357, \, respectively.$

NOTE G - LONG-TERM DEBT:

The following is a summary of long-term debt transactions for the year ended December 31, 2005:

	Balance			Balance
	<u>January 1, 2005</u>	<u>Additions</u>	Retirements	December 31, 2005
Series 2002 Wastewater				
Treatment Facility Bonds	\$5,434,770	\$ -	\$ 225,000	\$5,209,770
Series 2004 Project No. 1				
Refunding Bonds	370,000	_	70,000	300,000
Series 2004 Project No. 2				
Refunding Bonds	<u>340,000</u>			<u>340,000</u>
	<u>\$6,144,770</u>	\$	\$ 295,000	<u>\$5,849,770</u>
Refunding Bonds Series 2004 Project No. 2	340,000	- - \$ -		340,000

Long-term debt consists of the following at December 31, 2005 and 2004:

	2005	2004
\$5,664,770 Series 2002 Wastewater Treatment Facility Bonds due in annual installments of \$225,000 to \$360,000 plus interest at 2.50 percent; maturing in April, 2023	\$5,209,770	\$5,434,770
\$370,000 Series 2004 Project No. 1 Refunding Bonds due in annual installments of \$70,000 to \$80,000 plus interest of 3.125 to 3.750 percent; maturing in September, 2009	300,000	370,000



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE G - LONG-TERM DEBT (Continued):

\$340,000 Series 2004 Project No. 2 Refunding Bonds due in annual installments of \$85,000	2005	2004
plus interest of 3.125 to 3.750 percent; maturing in January, 2009	<u>\$ 340,000</u>	\$ 340,000
Less current portion	5,849,770 <u>385,000</u>	6,144,770 295,000
Total	<u>\$5,464,770</u>	<u>\$5,849,770</u>

The annual requirements to amortize all debt outstanding as of December 31, 2005, including interest payments of \$1,309,931 are as follows:

Year Ending December 31,	
2006	\$ 532,672
2007	536,953
2008	530,732
2009	528,838
2010	357,932
2011 - 2015	1,798,784
2016 - 2020	1,794,409
2021 - 2023	<u>1,079,381</u>
Total	<u>\$7,159,701</u>

Payment of bond principal, interest and service costs are provided under the terms of contractual agreements with local governmental units as explained in Note D.

NOTE H - ADVANCES:

Under terms of agreements between the Authority, the Village of Alanson and Littlefield Township, the participating governmental units made a long-term advance in December, 1996 to the Authority's repair/replacement reserve. The advances are to be repaid by the Authority over terms ranging from 10 to 15 years.

NOTE I - UNRESTRICTED NET ASSETS:

The Authority, through Board action, has designated the use of December 31, 2005 and 2004 unrestricted net assets as follows:

	2005	2004
Designated for future repair and replacement Designated for future capital items and expenses	\$557,685 <u>49,933</u>	\$515,183 <u>48,853</u>
Total designated net assets Undesignated and unallocated	607,618 201,711	564,036
Total unrestricted net assets	\$809,329	<u>\$747,253</u>

HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY NOTES TO FINANCIAL STATEMENTS

for the years ended December 31, 2005 and 2004

NOTE J - PENSION PLAN:

The Authority sponsors the Harbor Springs Area Sewage Disposal Authority Money Purchase Pension Plan which covers all regular full-time and part-time employees. The plan is administered by the International City Management Association Retirement Corporation. Employees are eligible to participate after one year of service and upon reaching the age of 21. The Authority is required to contribute 8 percent of eligible compensation to the plan. Employees may also contribute to their individual accounts. Employer contributions and earnings of each individual employee fully vest after five years of credited service. Contributions and earnings not vested with employees who leave employment are used to offset the future costs of the plan. The Authority's contributions to the plan for the years ended December 31, 2005 and 2004 was \$19,816 and \$15,405, respectively.

NOTE K - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100 percent of its claims.

The Authority also belongs to the Michigan Municipal Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various municipalities throughout the state. The Authority pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.

The Authority also carries commercial insurance for all other risks of loss including property and employee health insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - DEFEASED DEBT:

On October 7, 2004, the Authority issued \$710,000 in general obligation bonds, to advance refund series 1988 and 1989 revenue bonds totaling \$680,000. The general obligation bonds were issued at par value. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the revenue bonds were called on January 1, 2005 and March 1, 2005. The advance refunding met the requirements of an in-substance debt defeasance and the revenue bonds were removed from the Authority's financial statements.

As a result of the advance refunding, the Authority reduced its total debt service requirements by approximately \$42,000.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF OPERATING INCOME BEFORE DEPRECIATION

for the year ended December 31,2005

(with comparative totals for the year ended December 31, 2004)

	Sp. : ! !	Harbor rings Area Sewage Disposal Authority reatment	Spr S D	Harbor rings Area Sewage Disposal stem West	Sp ! !	Harbor rings Area Sewage Disposal estem East	1	Harbor rings Area Sewage Disposal Authority tter System	To S C	Little fraverse ownship Sewage ollection stem West	T :	Little Traverse Jownship Sewage Jollection Stem East
Operating revenues	\$	199,124	\$	73,171	\$	74,030	\$	24,027	\$	50,433	\$	35,380
Pumping expenses:												
Labor		-		11,809		8,080		7,107		527		_
Power		32,339		14,824		14,217		5,228		2,770		1,685
Maintenance		33,280		3,870		3,934		4,622		3,108		2,372
Supplies and		00,200		0,070		0,001		1,022		0,100		2,072
expenses		15,167		876		4,280		983		1,585		1,640
Total		80,786		31,379		30,511		17,940		7,990		5,697
Treatment expenses:												
Labor		55,049		-		_		-		-		-
Power		-		-		90		_		_		-
Maintenance		16,963		257		-		-		-		-
Total		72,012		257		90		-		-		-
Collection and												
transmission expenses												
Labor										7 000		
Maintenance		-		-		-		-		7,008		4,830
of mains		1.600										
of mains		1,620		-		-		-		200		825
Total		1,620		-		-		-		7,208		5,655
Administrative and												
general expenses:												
Salaries		24,800		7,136		8,123		2,209		5,135		4,263
Office supplies						·		_•		-,		1,200
and expenses		5,362		1,940		1,756		478		1,110		923
Outside services		5,394		597		796		207		504		403
Insurance		8,056		2,132		2,846		740		1,802		1,441
Employee benefits		30,328		7,941		9,935						
Vacation, holidays		00,020		7,341		3,333		2,703		6,277		5,219
and sick leave		14,618		2.766		4 505		1.000		0.000		0.440
Payroll taxes				3,766		4,585		1,269		2,888		2,442
		9,225		2,390		1,918		965		1,335		1,096
Transportation expense		4810										
•		4,712		1,228		1,487		414		939		796
Maintenance		1,321		350		466		121		295		236
Miscellaneous		18		5		6		2		4		3
Total		103,834		27,485		31,918		9,108		20,289		16,822
Total operating												
expenses		258,252		59,121		62,519		27,048		35,487		28,174
				·								
Operating income												
(loss) before												
expense allocation		(59,128)		14,050		11,511		(3,021)		14,946		7,206
Springvale - Bear Creek												
surcharge		24,580		-		-		-		_		-
Operating income												
(loss) before			_									
depreciation	\$	(34,548)	\$	14,050	\$	11,511	\$	(3,021)	\$	14,946	\$	7,206

	Littlefield Township Sewage Collection System	Alanson Sewage Collection System	,	Harbor Springs Collection System	Be I	pringvale ear Creek Sewage Disposal System		West Traverse Township Sewage Disposal System		Little Traverse Water System	Total			2004 Total
\$	41,589	\$ 36,909	\$	41,182	\$	118,217	\$	2,185	\$	50,299	\$	746,546	- -	728,686
	- 4,212 5,341	283 3,648 3,019		5,414 1,633		24,550 13,029 6,646		469 - (14)		10,497 15,584 4,779		63,322 112,950 72,590		41,004 115,954 58,739
	1,399	1,064		849		2,817		24		2,072		32,756		40,249
-	10,952	 8,014		7,896		47,042		479	. <u> </u>	32,932		281,618	- —	255,946
	- - -	 - - -		- - -		- - -	_	-	_	-		55,049 90 17,220		70,098 196 38,356
	-	-		-		-		-		-		72,359	•	108,650
	9,775	7,108		5,996		-		-		-		34,717		23,444
	-	2,275		-		363		-		150		5,433		3,340
	9,775	 9,383		5,996		363	_	-		150		40,150	_	26,784
	4,539	3,934		4,209		11,516		346		4,125		80,335		79,190
	984 1,044 1,480 5,558	852 993 1,299 4,817		913 376 1,343 5,168		2,494 1,069 3,822 14,093		77 32 115 450		868 383 1,368 4,908		17,757 11,798 26,444 97,397		18,767 16,210 26,277 70,176
	2,637 1,605	2,276 1,326		2,472 1,154		6,640 3,793		198 95		2,285 1,630		46,076 26,532		33,960 21,647
	863 243 3	704 213 3		810 220 3		2,170 627 8		61 25		1,239 224 3		15,423 4,341 58		13,595 3,628 283
	18,956	 16,417		16,668		46,232		1,399		17,033		326,161		283,733
	39,683	 33,814		30,560		93,637		1,878		50,115		720,288		675,113
	1,906	3,095		10,622		24,580		307		184		26,258		53,573
	-	 -		-		(24,580)		-		-		-		-
\$	1,906	\$ 3,095	\$	10,622	\$	_	\$	307	\$	184	\$	26,258	\$	53,573



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVES for the years ended December 31, 2005 and 2004

	Re	System epair and placement	Vehicle lacement	Total		
Balance, December 31, 2003	\$	328,481	\$ 33,564	\$	362,045	
Additions: Monthly billings Interest income Direct billings		115,358 3,683 4,000	 89,020 987 -		204,378 4,670 4,000	
Total additions	-	123,041	90,007		213,048	
Reductions: Repairs Repayment of long-term advances Total reductions		44,862 15,048 59,910	 - - -		44,862 15,048 59,910	
Balance, December 31, 2004	-	391,612	 123,571		515,183	
Additions: Monthly billings Insurance proceeds Sale of equipment Transfer from undesignated assets for sludge removal Refund from overpayment Interest income Total additions		115,392 2,400 2,500 10,000 492 8,812	 93,308 - 1,701 - - 3,505 - - 98,514		208,700 2,400 4,201 10,000 492 12,317	
Reductions: Repairs Capital acquisitions Vehicle purchase Repayment of long-term advances		51,211 68,838 - 15,048	60,511 -		51,211 68,838 60,511 15,048	
Total reductions		135,097	 60,511		195,608	
Balance, December 31, 2005	\$	396,111	\$ 161,574	\$	557,685	



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVE for the years ended December 31, 2005 and 2004

		Harbor Springs Area Sewage Disposal Authority Treatment		Harbor Springs Area Sewage Disposal System West		Harbor Springs Area Sewage Disposal System East		Harbor Springs Area Sewage Disposal Authority Water System		Little Traverse Township Sewage Collection System West	
Balance, December 31, 2003	\$	87,227	\$	38,290	\$	28,444	- <u>-</u>	2,723	\$	62,713	
Additions: Monthly billings Direct billings		31,500	٠	9,204		26,760		600	•	11,100	
Interest income		1,070		315		360		32		634	
Total additions		32,570		9,519		27,120	·	632		11,734	
Reductions: Repairs Repayment of long-term advances		- -		13,595		15,048				12,949	
Balance, December 31, 2004		119,797		34,214		40,516		3,355		61,498	
Additions: Monthly billings Insurance proceeds Sale of equipment Transfer from undesignated funds for sludge removal		31,500 2,500		9,204 2,400		26,760 - -		600		11,100	
Refund of overpayment		10,000		492		-		-		-	
Interest income		3,558		44		1,158		52		1,392	
Total additions		47,558		12,140		27,918		652		12,492	
Reductions: Repairs Capital acquisitions Repayment of long-term advances		6,558 - -		9,163 35,133		15,048		1,661		1,275 8,325	
Total reductions		6,558		44,296		15,048		1,661		0.600	
Balance, December 31, 2005	\$	160,797	\$	2,058	\$	53,386	\$			9,600	
	=:-;						-	2,346	\$	64,390	

Little Traverse Township Sewage Collection System East	Townsl Sewag Collect	Littlefield Township Sewage Collection System		Alanson Sewage Collection System		urbor rings ection stem	Total
\$ 30,605	\$	18,290	\$	17,712	\$	41,847	\$ 328,481
13,632 - 396		7,500 2,000		7,500 2,000		7,562	115,358 4,000
14,028		9,715		202		459	 3,683
14,020		9,715		9,702		8,021	123,041
-		9,159		9,159		-	44,862 15,048
44,633		18,846		18,255		49,868	391,612
13,632		7,500		7,500 -		7,596 -	115,392 2,400
•		-		-		-	2,500
1,117		- - 187				-	10,000 492
				363		941	 8,812
14,749		7,687		7,863		8,537	139,596
7,910		15,352 6,740		9,062 3,840		230 14,800 -	51,211 68,838 15,048
7,910		22,092		12,902		15,030	 135,097
\$ 51,472	\$	4,441	\$	13,216	\$	43,375	\$ 396,111



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS

December 31, 2005

2002 Wastewater	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity April 1	Outstanding December 31, 2005	Total Interest Payable	
Treatment Facility							
Bonds	April 1, 2002	\$ 5,664,770	2.50	2006	\$ 230.000	ф 10g 000	
	1-1	\$ 0,001,770	2.50	2007		\$ 127,369	
			2.50	2007	240,000	121,494	
			2.50	2009	245,000	115,432	
			2.50	2010	250,000	109,244	
			2.50	2011	255,000	102,932	
			2.50	2012	265,000	96,432	
			2.50	2013	270,000	89,744	
			2.50	2014	275,000	82,932	
			2.50	2015	285,000	75,932	
			2.50	2016	290,000	68,744	
			2.50		300,000	61,369	
			2.50	2017 2018	305,000	53,807	
			2.50		315,000	46,057	
			2.50	2019	320,000	38,119	
			2.50	2020	325,000	30,057	
			2.50	2021	335,000	21,807	
•			2.50	2022	345,000	13,307	
			2.50	2023	359,770	4,497	
					\$ 5,209,770	\$ 1,259,275	

NOTE: Bonds are subject to redemption at par prior to maturity at the option of the Authority, in the amount of \$5,000 or any multiple of \$5,000.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS

December 31, 2005

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity September 1	Outstanding December 31, 2005	Total Interest Payable	
Revenue Bonds, Project No. 1 Refunding Bonds, Series 2004	Oct. 7, 2004	\$ 370,000	3.125 3.125	2006	\$ 70,000 75,000	\$ 10,156 7,969	
			3.500 3.750	2008 2009	75,000 80,000 \$ 300,000	\$ 26,750	

NOTE: The prior bond issue, Revenue Bonds, Series 1989, was refinanced during 2004 with the Project No. 1 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS

December 31, 2005

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity January 1	Outstanding December 31, 2005		Total Interest Payable	
Revenue Bonds, Project No. 2 Refunding Bonds,								
Series 2004	Oct. 7, 2004	\$ 340,000	3.125 3.125 3.500 3.750	2006 2007 2008 2009	\$ 85,000 85,000 85,000 85,000		\$	10,147 7,490 4,675 1,594
					\$ 340,000		\$	23,906

NOTE: The prior bond issue, Revenue Bonds Project No. 2 Refunding Bonds, Series 1988, was refinanced during 2004 with the Project No. 2 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.



HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF ADVANCES

December 31, 2005

	Orignal Amount	Repayment Term	Interest Rate	Year Due	Principal Due		Interest Due	
Littlefield Township	\$ 92,819) 15 Years	5.50%	2006 2007 2008 2009 2010 2011	\$	6,702 7,080 7,481 7,902 8,348 8,065 45,578	\$	2,340 1,962 1,561 1,140 694 223
Village of Alanson	\$ 46,118	3 10 Years	5.50%	2006	\$	5,359	\$	148



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June 5, 2006

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have completed our audit of the financial statements of the Harbor Springs Area Sewage Disposal Authority for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. In planning and performing our audit, of the financial statements, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. During our audit, we became aware of the following matters that represent an opportunity for strengthening operating controls and efficiencies.

The following comments were included in last year's letter and are being repeated:

Accounting Software

The Authority is currently not using the payroll and accounts receivable modules of its accounting software. We recommend that the Authority consider upgrading its accounting software so payroll and accounts receivable can be used to make the accounting process more efficient. An upgraded software would also most likely include other enhancements that the Authority would find useful in the processing and reporting of its financial information. We would be happy to assist the Authority in the research and implementation of new accounting software.

Accounting Procedures and Reporting

The Authority's bookkeeper has the responsibilities of maintaining the checking account, including preparation of bank reconciliations, and mailing of checks. We would recommend that the Authority implement additional procedures to strengthen internal controls. The Authority's manager would review all unopened bank statements before the bookkeeper has access to the statements. He would also review the bank reconciliation on a surprise basis. The implementation of these procedures would help to protect the Authority against any unauthorized disbursements.

Inventory

The Authority does not record an inventory of spare parts and supplies in its accounting records. We would recommend that the Authority consider implementing an inventory system which would strengthen control over inventory and improve the accuracy of the financial statements.

 Harbor Springs Area Sewage Disposal Authority June 5, 2006
 Page 2

The following comment is a result of this year's audit:

<u>Insurance</u>

During our audit, we noted that the bookkeeper was not bonded. We recommend that any employee with access to financial data be bonded.

We would like to acknowledge the courtesy and assistance extended to us by the Authority's personnel during our audit. Should you have any questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.

